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C O N F I D E N T I A L SECTION 01 OF 03 KHARTOUM 000417

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SUBJECT: SUDAN: TOTAL AND WHITE NILE PETROLEUM MANEUVER TO
CONTROL BLOCK BA

Classified By: DCM ANDREW STEINFELD FOR REASONS 1.5 (B) (D)

¶1. (U) SUMMARY: The confrontation between Total and the UK-based White Nile Limited (WNL) continues, with both sides claiming the right to develop Block Ba in Southern Sudan. Total, in a consortium that includes Marathon Oil, was granted the concession over 25 years ago by the government in Khartoum. However, White Nile Petroleum enjoys the support from elements in the Government of Southern Sudan (GoSS), which actually controls the region. The Comprehensive Peace Agreement (CPA) specifies that all existing petroleum contracts remain valid, and Total has decided to remain closely aligned with the NCP and pursue its claim in British courts. WNL has worked on getting support in the south and plans to move forward with drilling within the next few months.

¶2. (U) This dispute has caused political infighting in the south, divided largely along the lines of existing factions. Some GoSS members believe that the WNL deal lacks transparency and runs contrary to the CPA, while others are investors in the undertaking, including, possibly, GOSS VP Machar and his wife, who is deputy Energy minister of the GNU. Further questions as to WNL's intentions are raised by the fact that the chairman of WNL is also involved in separate business deals with Billy Rautenbach, the white Zimbabwean businessman who has an outstanding warrant for fraud in South Africa.

¶3. (C) We will continue to monitor developments closely: a U.S. company is involved; there exists a smell of corruption, or at least conflict of interests; and a contest over this oil field could exacerbate tensions between north and south.
End Summary.

Chronology

¶4. (U) The following is an annotated chronology of events from 1980 to the present:

1980: Total is granted a concession in Block B (central), the largest and furthest south of the oil blocks. Covering over 118,000 sq. km, the block overlaps four southern states and 7 oil basins: Bor, Pibor Post, Mongalla, Tali East & West, and Boro North & South.

1981-1985: Total explores its concessions, focusing on the first three basins, and decides to begin drilling in Bor.

1986: Before drilling can begin, an SPLA attack kills two Total employees. Total ceases operations, but maintains its concession with a yearly payment.

Dec 19, 2004: White Nile Limited registers as a company in England with a capital base of 60,000 pounds and Phil Edmonds, the famous cricket player, as chairman.

Dec 21, 2004: On the eve of the CPA, Total signs a revised Exploration and Production (E&P) agreement.

February 2005: WNL is listed on the London Exchange. Its listing application includes a statement that it signed a concession agreement with the GoSS sometime in 2004 for Block Ba, a 70,000 sq km subsection of Block B (central) encompassing most of the known reserves. Geological data is identical to Total's data from the early 1980s.

March 2005: Trading for WNL stock is briefly suspended due to the dispute with Total. Trading begins again when WNL produces a contracting license from the GoSS. WNL stock jumps from a total value of 9 million pounds to 123 million pounds as the company announces plans to drill in Bor, where total hidpanned to f2all iv Q19Q*QQ
~}>~_?=>g??Q;CQtV?Q9L through legal challenges in England, WNL moves ahead. WNL names exploration expert Phillip Ward as CEO. Ward has worked with Brown and Root in the Middle East and a British firm in Libya. He reportedly has a Dinka wife. Terra Seis of Canada will do seismological work.

Conflicting Concessions

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15. (U) Total's concession agreement is a standard exploration and production contract including clauses requiring sustainable development and restitution of land. Total is the sole operator with a 32.5 percent stake. Other investors include U.S.-based Marathon Oil (32.5 percent), Kufpec of Kuwait (25 percent), and the Sudanese state-owned oil company, Sudapet (10% and first oil). After initial outlays are repaid, profit sharing follows a curve that guarantees Sudapet up to 85 percent within 12 years. Total will also build a 450 km spur to the main pipeline at Heglig. Additionally, Total has hired the Swiss Demining Foundation to support WFP demining efforts in the area, and has offered USD 2 million to the UNDP for development programs around Bor.

16. (U) The terms of the WNL deal are not public, although newspapers have reported that Nilepet, the GoSS-owned oil company, was given 50 percent of the shares in WNL and a 40 percent stake in the concession. It is unclear if the WNL shares were given to the GoSS or individual members of the GoSS. Newspapers also report that White Nile has agreed to a variety of development programs around Bor. Dinka Bor chiefs have signed a petition supporting WNL's claims. The Governor of Bor has shown similar support. Although only part of Total's Block B (central), Block Ba covers all the proven reserves. Blocks Bb and Bc remain unexplored and are characterized by malaria, non-existent development, and unstable security.

17. (U) Total believes it has a strong legal case -- the CPA guarantees oil agreements signed before January 9, 2005. Total is also quick to point out that WNL is a paper company with no petroleum experience or financial infrastructure. However, they admit that if WNL begins drilling, they will be difficult to dislodge. As a result, Total has also announced plans to begin drilling soon.

18. (SBU) There are other questions regarding WNL's legitimacy, including the recent announcement that Edmonds

has gone into business with Billy Rauchtenbach. Rauchtenbach, a white Zimbabwean and close associate of Robert Mugabe, has been involved in questionable mineral exploitation deals throughout Central and Southern Africa and is currently wanted for fraud in South Africa.

Questionable Deals and Suspicions

¶9. (C) Many in the GoSS feel that it can hold 100 percent of the oil revenues in the deal with WNL because they interpret the CPA to read that the 50/50 split only applies to revenues collected by the GNU. Southern support is led by GoSS Vice President Riek Machar, and his wife Angelina Teny, who is also GNU State Minister of Energy and Mines. There are also rumors that Machar and his wife were the recipients of large blocks in WNL stock. Other GoSS supporters are the Minister of Culture, Youth and Sports John Luc Jok (formerly GNU State Minister for Energy before joining the GoSS), Minister of Gender, Social Welfare and Religious Affairs Mary Kiden Wani, and former SPLA security head and GoSS legal advisor Paul Mayom. Mayom may also become a member of the board for Nilepet.

¶10. (C) Not everyone in the GoSS supports WNL. Minister of Legal Affairs Michael Makuai, Minister of Regional Cooperation Nhial Deng Nhial, and Minister of Industry and Mining Albino Akol Akol, oppose the deal because of its opacity and believe, at a minimum, that it has the appearance of impropriety. They also believe that Total has the legal claim under the CPA. GoSS President Salva Kiir has yet to take sides. However, after Akol threatened to resign over Machar's suggested appointments to the Nilepet Board of Directors, Kiir stopped the appointments and agreed to take another look at the entire issue. Kiir plans on convening a full cabinet meeting to discuss Nilepet, WNL, and Block B as soon as he has a quorum, most likely this week.

¶11. (U) Meanwhile, Teny, speaking at a development conference in Dubai, said that the National Petroleum Commission (NPC) will meet to resolve the dispute. The SPLM members on the NPC are Teny, Deng, Wani and Jok, with Kiir serving as co-chairman. The NCP has said that the petroleum commission has no jurisdiction over the Total contract

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because it was signed before the CPA.

¶12. (C) For its part, Total must overcome a lot of suspicion in the south. In general, the French are not trusted in Southern Sudan due to the perception of close ties to the north and minimal involvement with reconstruction in the south. The French are also largely blamed for the Jonglei canal because the contractor building the canal was French. Many in the SPLA believe the French supported the north during the war and provided satellite data to northern forces in exchange for Carlos the Jackal.

¶13. (C) Total has started to reach out to the south and has had meetings with Kiir, who was positive and speculated that a compromise could be worked out. An official for Total, however, told CG Juba that executives in Paris still favor close alignment with the North. The North has attempted to prevent Total contacts with the GoSS. GNU Vice President Ali Osman Taha has reportedly assured Total executives that he could solve the problem.

¶14. (C) Despite these efforts, Total has faced difficulties in both the north and the south. In the south, the GoSS has denied them access to Bor, while in the North they have had trouble getting flight clearances (Note: Petronas and other oil companies are permitted to fly without prior notification). Total has also been forced to hire the nephew of GNU Minister of Energy and Mines Al Jaz. The Total official said his strongest northern ally is GNU Minister of

International Cooperation Tijani al Faidal, the former Ambassador to France. The Total official also said unnamed government security forces offered to clear the Bor area, an offer Total declined.

Comment

¶15. (U) For a variety of reasons, we should continue to track this issue:

-- (SBU) The Total-led consortium includes a reputable U.S. company (Marathon) that has made a significant investment.

-- (SBU) Failure of the GOSS to undertake transparent and fair public tenders will damage donor and investor confidence.

-- (SBU) GoSS failures to honor CPA commitments could jeopardize long-term peace and reconciliation.

-- (C) The involvement of GoSS Vice President Machar and his wife, State Minister Teny, bears watching because of issues regarding conflicts of interest and the potential for corruption at the highest levels of government
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